



Imperial Oil Limited's Q3 Earnings Are Out: What Should You Do Now?

Description

Imperial Oil Limited ([TSX:IMO](#))(NYSE:IMO), one of the largest integrated oil and gas companies in the world, announced better-than-expected third-quarter earnings results before the market opened on October 30, but its stock responded by falling over 1% in the trading session that followed. Let's take a closer look at the quarterly results to determine if this weakness represents a long-term buying opportunity, or if the stock could head lower from here.

Lower oil and gas prices lead to decreased profitability

Here's a summary of Imperial's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Earnings Per Share	\$0.56	\$0.51	\$1.10
Revenue	\$7.16 billion	\$7.02 billion	\$9.66 billion

Source: *Financial Times*

Imperial's earnings per share decreased 49.1% and its revenue decreased 25.9% compared with the third quarter of fiscal 2014. These declines can be attributed to lower oil and gas prices compared with the year-ago period, which led to the company's average realized selling price of conventional crude oil decreasing 53.9% to \$37.72 per barrel, its average realized selling price of natural gas liquids decreasing 82.8% to \$6.48 per barrel, and its average realized selling price of natural gas decreasing 51.2% to \$1.75 per thousand cubic feet.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Net income decreased 48.8% to \$479 million
2. Gross oil-equivalent production increased 25.7% to 386,000 barrels per day
3. Gross natural gas production decreased 22.1% to 116 million cubic feet per day

4. Refinery throughput volume decreased 4.6% to 390,000 barrels per day
5. Imperial's share of Syncrude production decreased 3.3% to 59,000 barrels per day
6. Petroleum product sales decreased 1.4% to 495,000 barrels per day
7. Petrochemical sales decreased 1.6% to 239,000 tonnes
8. Cash flow from operating activities decreased 10.2% to \$1.1 billion

Imperial also announced that it will be maintaining its dividend of \$0.14 per share in the fourth quarter, and it will be paid out on January 1 to shareholders of record at the close of business on December 3.

Should you buy Imperial Oil today?

Given the very weak oil and gas price environment, the third quarter was a great success for Imperial, and its results surpassed analysts' expectations, so I do not think the market reacted correctly by sending its shares lower. With this being said, I think the weakness represents a great long-term buying opportunity, especially because the stock now trades at even more attractive valuations and because it is one of the market's top dividend-growth plays.

First, Imperial's stock now trades at just 22.8 times fiscal 2015's estimated earnings per share of \$1.91 and only 17.5 times fiscal 2016's estimated earnings per share of \$2.48, both of which are inexpensive compared with the industry average price-to-earnings multiple of 45.2 and its long-term growth potential if oil and gas prices return to the levels they were at in early 2014.

Second, Imperial pays an annual dividend of \$0.56 per share, giving its stock a 1.3% yield. A 1.3% yield may not seem impressive at first, but it is very important to note that the company has raised its dividend for 20 consecutive years, making it one of the top dividend-growth plays in the market.

With all of the information provided above in mind, I think Imperial Oil represents one of the best long-term investment opportunities in the energy sector. All Foolish investors should strongly consider using the recent weakness to begin scaling in to positions.

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1. Editor's Choice

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